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BRONCOENERGY

Financial Statements

For the year ended December 31, 2005

Contents

Deloitte.

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Auditors' Report

To the Shareholders of
Bronco Energy Ltd.

We have audited the balance sheet of Bronco Energy Ltd. as at December 31, 2005 and the statement of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

The comparative financial statements as at and for the seven month period ended December 31, 2004 presented for comparative purposes were audited by another firm of Chartered Accountants which expressed an opinion without reservation on those financial statements in their report dated June 15, 2005.

(signed) DELOITTE & TOUCHE LLP

Calgary, Alberta
March 17, 2006 (except for Note 10 which is dated April 27, 2006)

Chartered Accountants

Bronco Energy Ltd.
Balance Sheets

As at December 31,	2005	2004
Assets		
Current		
Cash and cash equivalents	$ 5,431,556	$ 1,056,882
GST receivable	132,113	-
Cash calls receivable	134,175	-
Prepaid expenses	68,435	-
	5,766,279	1,056,882
Future tax asset (Note 3)	346,511	-
Property and equipment (Note 4)	1,696,144	-
	$ 7,808,934	$ 1,056,882
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$ 933,300	$ 7,834
Asset retirement obligations (Note 5)	72,879	-
	1,006,179	7,834
Shareholders' Equity		
Share capital (Note 6 (b))	7,037,868	1,052,045
Contributed surplus (Note 6 (d))	303,947	-
Deficit	(539,060)	(2,997)
	6,838,755	1,049,048
	$ 7,808,934	$ 1,056,882

Commitments (Note 7)
Subsequent Event (Note 10)

On behalf of the Board:

"Signed" Director
Brian W. Alford

"Signed" Director
Dan Toews

The accompanying notes are an integral part of these financial statements.

Bronco Energy Ltd.
Statements of Operations and Deficit

	For the year ended December 31, 2005	For the initial seven month period ended December 31, 2004
Expenses		
Depreciation	**12,819**	-
General and administrative (Note 9(a))	**368,533**	17,055
Stock based compensation	**305,638**	-
	686,990	17,055
Loss from operations	**(686,990)**	(17,055)
Other income		
Gain on sale of crown land	**-**	7,896
Interest	**27,116**	6,162
	27,116	14,058
Loss before income taxes	**(659,874)**	(2,997)
Income taxes		
Future tax recovery	**123,811**	-
Net loss for the period	**(536,063)**	(2,997)
Deficit, beginning of period	**(2,997)**	-
Deficit, end of period	**$ (539,060)**	$ (2,997)
Loss per common share – basic and diluted	**$ (0.1223)**	$ (0.0015)
Weighted average number of shares outstanding	**4,381,862**	1,984,104

Bronco Energy Ltd.
Statements of Cash Flows

	For the year ended December 31, 2005	For the initial seven month period ended December 31, 2004
Cash flows from operating activities		
Net loss for the period	**$ (536,063)**	$ (2,997)
Items not affecting cash:		
Future tax recovery	**(123,811)**	-
Gain on sale of crown land	**-**	(7,896)
Stock-based compensation	**305,638**	-
Depreciation	**12,819**	-
	(341,417)	(10,893)
Changes in non-cash working capital:		
GST receivable	**(132,113)**	-
Prepaid expenses	**(68,435)**	-
Accounts payable and accrued liabilities	**116,471**	7,834
	(425,494)	(3,059)
Cash flows from financing activity		
Issue of share capital, net of issue costs	**5,761,432**	1,052,045
Cash flows from investing activities		
Purchase of petroleum and gas properties and equipment	**(1,636,084)**	(138,104)
Proceeds from sale of crown land	**-**	146,000
Change in non-cash working capital – cash calls	**(134,175)**	-
Change in non-cash working capital – accounts payable and accrued liabilities	**808,995**	-
	(961,264)	7,896
Increase in cash and cash equivalents	**4,374,674**	1,056,882
Cash and cash equivalents, beginning of period	**1,056,882**	-
Cash and cash equivalents, end of period	**$ 5,431,556**	$ 1,056,882
Cash and cash equivalents consists of:		
Cheques written in excess of funds on hand	**$ (31,166)**	$ 2,734
Short-term deposits	**5,462,722**	1,054,148
	$ 5,431,556	$ 1,056,882

1. Nature of Operations

Bronco Energy Ltd. ("the Company") was incorporated under the Alberta Business Corporations Act on May 31, 2004. The Company is in the business of exploring for, acquiring and producing petroleum and natural gas in Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. During 2005 the Company completed an initial public offering and raised funds with the intent to commence the Company's principal business activity is the exploration, development and operation of petroleum and gas properties. As at December 31, 2005 the Company's properties are still in the pre-production stage. The Company's continued success is dependent on identifying future prospects, raising capital required and achieving profitable operations.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles ("GAAP") in Canada. The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

(a) Revenue recognition
Revenue from the sales of petroleum and natural gas are recognized, net of related royalties, when the risks and rewards of ownership pass to the purchaser, including delivery of the product, the selling price being fixed or determinable and collectibility being reasonably assured. Settlement adjustments, if any, are reflected in revenue when the amounts are known.

(b) Joint venture operations
Some of the Company's of petroleum and natural gas activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

(c) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, bank balances (including temporary bank overdrafts), and term deposits and investments with original maturities of three months or less.

(d) Property and equipment

The Company accounts for petroleum and natural gas properties using the full cost method of accounting. Under this method, all costs associated with the acquisition of, exploration for and the development of, natural gas and crude petroleum reserves, including asset retirement costs, are capitalized within a separate cost centre for each country in which the Company has petroleum and gas activities. Such costs include lease acquisition, lease rentals on undeveloped properties, geological and geophysical, drilling of both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. All costs have been capitalized in a single Canadian cost centre, which is currently in the preproduction stage, and such costs are excluded from costs subject to depletion. Capitalized costs are assessed at the end of each reporting period to determine if the total of such costs may be recovered in the future. Any costs considered unlikely to be recovered are written off and a corresponding loss is recognized in net income.

2. Significant Accounting Policies - continued

(d) Property and equipment - continued

Once the cost centre is no longer in the preproduction stage, costs accumulated within each cost centre will be depreciated, depleted and amortized using the unit-of-production method based on estimated gross proved reserves. For purposes of this calculation, gas is converted to petroleum on an energy equivalent basis. Capitalized costs subject to depletion will be net of equipment salvage values and will include estimated future costs to be incurred in developing proved reserves. Proceeds from the disposal of properties are normally deducted from the full cost pool without recognition of gain or loss unless that deduction would result in a change to the rate of depreciation, depletion and amortization of 20 percent or greater in which case a gain or loss is recorded. Costs of major development projects and costs of acquiring and evaluating significant unproved properties are excluded, on a cost centre basis, from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or impairment has occurred. An impairment loss would be recognized in net earnings when the carrying amount of a cost centre is not recoverable and the carrying amount of the cost centre exceeds its fair value. The carrying amount of the cost centre is not recoverable when the carrying amount exceeds the sum of the undiscounted cash flows from proved reserves. When the sum of the cash flows is less than the carrying amount, the impairment loss is limited to the amount by which the carrying amount exceeds the sum of: (a) the fair value of proved and probable reserves; and (b) the costs of unproved properties that have been subject to a separate impairment test and contain no probable reserves.

(e) Asset Retirement Obligation

An asset retirement obligations ("ARO") associated with site restoration and abandonment of tangible long-lived assets are is initially measured at fair value by estimating the cost a third party would incur in performing the tasks necessary to retire such assets. The fair value of the ARO is recorded in the financial statements as a liability, equal to the present value of expected future cash outflows, with a corresponding increase in the carrying amount of the related asset. Subsequent to initial measurement, the effect of the passage of time on the ARO, or accretion expense, and the amortization of the asset retirement cost are charged to earnings in the period. Actual costs incurred upon the settlement of the ARO are charged against the ARO.

(f) Future income taxes

The Company follows the liability method for accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(g) Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company provides for the future effect on income taxes related to flow-through shares as a reduction of share capital and an increase in future income tax liability on the date that the Company files the renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures, provided there is reasonable assurance that the expenditures will be made.

2. Significant Accounting Policies - continued

(h) Per share amounts
Basic earnings (loss) per share is computed by dividing the earnings (losses) by the weighted average number of Class A common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase Class A common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants are assumed to be used to purchase common shares of the Company at the average market price during the year

(i) Measurement uncertainty
The amounts recorded for depletion and amortization of petroleum and natural gas properties and equipment, the liability for retirement obligations and the amount recorded for future income taxes are based on estimates. The impairment test is based on estimates of proved reserves, production rates, petroleum and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in estimates in future periods could be significant.

The financial statements include accruals based on the terms of existing joint venture agreements. Due to varying interpretations of the definition of terms in these agreements the accruals made by management in this regard may be significantly different from those determined by the Company's joint venture partners. The effect on the consolidated financial statements resulting from such adjustments, if any, will be reflected prospectively.

The valuation of stock options and warrants is based on a number of assumptions as disclosed in note 6. The valuation is significantly affected by the assumptions made with respect to the expected volatility over the expected life of the options and warrants at the time of grant. As the assumption is based on management's best estimate, it is subject to measurement uncertainty.

(j) Stock based compensation
The Company records compensation expense in the financial statements for stock options granted to employees and directors using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are expensed over the vesting period with a corresponding increase to contributed surplus. Upon exercise of the options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

(k) Financial instruments
The Company carries a number of financial instruments as detailed on the balance sheet. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted.

3. Income Taxes

a) The effective tax rate of income tax varies from the statutory rate as follows:

		2005		2004
Combined income tax rates		**34.6%**		36.0%
Expected income tax recovery at statutory rate	**$**	**(228,315)**	$	(1,079)
Previously unrecognized losses		**(1,042)**		-
Stock compensation		**105,750**		(909)
Non-deductible expenses		**614**		1,988
Other		**(818)**		-
Actual income tax recovery	**$**	**(123,811)**	$	-

b) The components of the Company's future income tax asset/liability are a result of the origination and reversal of temporary differences and are comprised of the following:

		2005		2004
Future tax assets (liabilities)				
Share issue and finance costs	**$**	**178,679**		$1,114
Property and equipment		**(25,546)**		925
Unused tax losses carry forward		**193,378**		139
		346,511		2,178
Valuation allowance		**-**		(2,178)
Future tax asset	**$**	**346,511**	$	-

c) Subject to confirmation with the income tax authorities, the Company has approximately $558,895 (2004 - $3,012) of non-capital loss carryover balances which commence expiring in 2014. In addition, the Company has capital cost pools of $68,919 (2004 - $Nil), resource pools of $700,324 (2004 - $Nil), and deferred financing cost pools of $516,414 (2004 - $2,000) to deduct against future taxable income, at rates prescribed by the Canadian Income Tax Act.

4. Property and Equipment

		Cost		Accumulated Depletion and Amortization		Net Book Value
Petroleum and natural gas properties and related equipment	**$**	**1,662,798**	**$**	**-**	**$**	**1,662,798**
Office equipment		**46,165**		**12,819**		**33,346**
	$	**1,708,963**	**$**	**12,819**	**$**	**1,696,144**

In 2005, there was no depletion recorded as there was no production in the year. At December 31, 2005, the Company capitalized $38,500 general and administrative costs (2004 - $Nil).

4. Property and Equipment - continued

The Company performed an impairment test calculation at December 31, 2005 to assess the recoverable value of the petroleum and natural gas properties. Excluded from this calculation is $580,900 of unproved properties. The petroleum and natural gas future prices are based on December 31, 2005 commodity price forecasts of the Company's independent reserve evaluators. These prices have been adjusted for commodity price differentials specific to the Company. The following table summarizes the benchmark prices used in the ceiling test calculation. Based on these assumptions, there was no impairment at December 31, 2005.

Year	WTI Oil ($U.S./bbl)	Foreign Exchange Rate	Edmonton Light Crude Oil ($Cdn/bbl)	AECO Gas ($Cdn/mmbtu)
2006	60.00	0.85	69.57	10.54
2007	57.50	0.85	66.61	9.52
2008	55.00	0.85	63.64	8.32
2009	52.50	0.85	60.68	7.71
2010	50.00	0.85	57.72	7.10
2011	47.50	0.85	54.76	7.24
Escalate Thereafter	2.0% per year		2.0% per year	2.0% per year

5. Asset Retirement Obligations

Total future asset retirement obligations were estimated by management based on the Company's working interest in its wells and facilities, estimated costs to remediate, reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total asset retirement obligations to be approximately $72,879 (2004 - $Nil) at December 31, 2005, based on an undiscounted total future liability of $111,588 (2004 - $Nil). These payments are expected to be incurred between 2008 and 2012. The Company used a credit adjusted risk-free rate of 8% per annum to calculate the present value of the asset retirement obligation.

Balance as at January 1, 2005	$ -
Liabilities incurred	72,879
Accretion expense	-
Balance as at December 31, 2005	$ 72,879

6. Share Capital

(a) Authorized

Unlimited number of Class A voting common shares

Unlimited number of preferred shares issuable in series at terms and conditions to be determined by the Board of Directors

(b) Issued

	2005		2004	
Class A voting common shares	**Number of shares**	**Amount**	Number of shares	Amount
Balance, beginning of period	**3,012,988**	**$ 1,052,045**	-	$ -
Issued on private placement for cash	**262,958**	**123,925**	3,012,988	1,054,545
Issued on Initial public offering	**5,699,999**	**4,274,999**	-	-
Issued on Initial public offering (Flow through shares)	**2,222,222**	**2,000,000**	-	-
Issued on exercise of options	**8,200**	**7,841**	-	-
Share issue costs (net of tax effect of $222,700)	**-**	**(420,942)**	-	(2,500)
Balance, end of period	**11,206,367**	**$ 7,037,868**	3,012,988	$ 1,052,045

(c) Stock Options

The Company has a stock option plan available to directors, officers, employees, consultants and management company employees of the Company. Under the Plan, the Company is authorized to issue options to purchase an aggregate of 1,300,000 shares. The Plan also restricts the number of shares that may be reserved for issuance to any one Participant, to an amount that does not exceed five percent (two percent in the case of consultants and persons employed to provide investors relations services) of the total issued and outstanding common shares (calculated on a non-diluted basis) in any twelve month period. Unless otherwise approved by the Board, the options vest either immediately or from the date of grant over 3 years and expire between three and five years from the date of grant. The number of common shares to be issued per option is to be determined by the Board at the time the options are granted.

Stock options to acquire common shares are granted to directors, officers, employees, consultants and management company employees from time to time at exercise prices equal to or greater than the market value of the shares at the date of the grant plus any applicable discount permitted by the Exchange.

6. Share Capital - continued

During the period ended December 31, 2005, the Company granted 2,174,676 (2004 – Nil) stock options to directors, officers, employees and consultants of the Company with the following terms:

Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Remaining Life (in years)	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)
150,654	150,654	$0.35	4.20 years	$0.35	4.20 years
820,000	273,334	$0.70	2.44 years	$0.70	2.44 years
160,000	53,334	$0.70	2.62 years	$0.70	2.62 years
160,000	53,334	$0.70	2.68 years	$0.70	2.68 years
784,022	784,022	$0.75	1.34 years	$0.75	1.34 years
100,000	-	$0.90	2.96 years	$0.90	2.96 years
2,174,676	1,314,678			$0.70	2.23 years

The total fair value of stock options granted in 2005 was estimated at $377,589 (2004 - $Nil), of which $107,951 will be recognized as stock compensation expense over the remaining vesting periods of the options. During 2005, stock compensation expense of $269,638 (2004 - $Nil) has been recorded in the statement of operations and deficit.

The value of stock options granted was determined at the dates of granting the options using the Black-Scholes option pricing model based on the following assumptions: risk-free interest rate of 4%; expected term of 3 to 5 years; volatility ranging from 30% to 53%; and expected future dividend yield of nil.

(d) Contributed Surplus

	2005	2004
Balance, beginning of period	$ -	$ -
Stock based compensation	269,638	-
Value of stock issued to management (Note 9(d))	36,000	-
Exercise of stock options	(1,691)	-
Balance, end of period	$ 303,947	$ -

7. Commitments

As at December 31, 2005, the Company had an obligation to incur additional eligible expenditures under existing flow-through share commitments of approximately $1,220,145 prior to December 31, 2006.

The Company leases its office space under an operating lease that will expire on May 31, 2006. The minimum lease payments remaining under this lease total $23,335. The Company has signed a new operating lease for same office space commencing on June 1, 2006 for an additional six year period. The annual minimum lease payments under the new lease are $63,886.

8. Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

Credit risk
A significant portion of the Company's cash is currently held with the same financial institution and, as such, the Company is exposed to concentration of credit risk.

9. Related Party Transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

a) General and administrative costs include consulting fees, of $247,000 (2004 - $Nil) for management, engineering, geological and accounting services were paid or payable to companies owned by officers and a director of the Company. Of this amount $ 38,500 was capitalized to property and equipment with the remainder being expensed.

b) Included in professional fees is $Nil (2004 - $1,500) that was accrued for accounting fees payable to an accounting firm where an officer of the Company is also a partner.

c) Included in professional fees and share issue costs is $94,386 (2004 - $5,165) that was paid to a law firm where a director of the Company is also a partner.

d) During the year ended December 31, 2005 and prior to the completion of the Company's Initial Public Offering, 180,858 (2004 – 1,398,043) shares were issued to directors, officers and members of the management team or parties related to them for $74,700 (2004 - $489,315). The Company has recorded an additional $ 36,000 as stock based compensation for the difference between the fair value and the amount paid for these shares.

These transactions are in the normal course of operations and have been recorded at their agreed to exchange amounts, which approximate fair value.

10. Subsequent Events

a) The Company has entered into a joint venture agreement with the Bigstone Cree Nation and Bigstone Oil & Gas Ltd. ("BCN/BOGL") for the exploration and development of petroleum and gas resources on certain reserve lands. The Company has agreed to drill a minimum of one well on the specified lands on or before December 31, 2006. Under the terms of the binding letter of intent the joint venture agreement will require continuous consultation with BCN/BOGL during all phases of development. The Company will also have a $12,000 annual obligation under a scholarship program for the direct benefit of Bigstone students during the life of the joint venture.

b) The Company has signed a letter of intent to enter into a business combination with Reel Technologies Corporation ("Reel"), whereby the Company will, upon completion of its due diligence and various conditions, offer to purchase by way of an exempt take over bid, all of the common shares of Reel. Subject to certain adjustments and conditions the Company will issue a maximum of 1,565,582 shares to the current Reel shareholders, will fund the repayment of Reel shareholder loans in the amount of $855,000, will assume certain debt obligations totaling approximately $350,000, and will fund the acquisition of a minority shareholder interest in a subsidiary of Reel.

c) The Company has signed an engagement agreement with RBC Dominion Securities Inc. ("RBC"), whereby the Company, with the assistance of RBC, intends to raise approximately $30 million through the issuance of the Company's Class A common shares, including $5 million of common shares with flow-through tax benefits, by means of a private placement offering. The final prices of the Class A common shares and flow through common shares will be negotiated between the Corporation and the purchasers.

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BRONCOENERGY

(the "Corporation")

MANAGEMENT'S DISCUSSION & ANALYSIS

FORM 51-102F1

--Annual--

FOR THE YEAR ENDED December 31, 2005

This Management Discussion and Analysis is prepared in accordance with Regulation 51-102 on Continuous Disclosure Requirements. It should be read in conjunction with the audited financial statements for the year ended December 31, 2005 and the accompanying notes contained therein. Unless otherwise indicated, the term "Corporation" refers to Bronco Energy Ltd. The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Barrel of oil equivalent ("boe") amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil ("6:1") unless otherwise stated. The term "boe" may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalence is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Certain statements in this Management Discussion and Analysis may be forward-looking. Forward-looking statements are subject to risks and uncertainties that may cause the Company's actual results to be materially different from any future results expressed or implied by such forward-looking statements. These risks and uncertainties are discussed herein and in other securities regulatory filings. The reader is cautioned against the risk of giving excessive credibility to these forward-looking statements.

Note: References to "fiscal 2004" in this document refer to the initial seven month period ending December 31, 2004. References to "fiscal 2005" in this document refer to the financial year ending December 31, 2005.

1. Date of information

The date of the information contained in this Management Discussion and Analysis is April 26, 2005.

2. Operations summary

The Corporation was formed in May 2004 as a private company with the primary objective of creating shareholder value by exploring for and developing oil and gas assets in Canada. Specifically, the Corporation plans to generate and develop its own prospects within the Western Canadian Sedimentary Basin, and also to pursue the strategic acquisition of producing oil and gas properties in the region.

The Corporation initially raised over $1.1 million privately and subsequently acquired 100% working interests in ten separate mineral leases, consisting of 5,200 acres, at Alberta Crown Land Sales during the first six months of fiscal 2005. Bronco has since entered into a joint venture with an industry partner on a portion of these crown leases. The leases are located primarily in east central Alberta in the following recognized oil and gas areas:

- Bruce
- Cessford
- Cold Lake
- Cygnet
- Knappen
- Provost
- Shekilie

In October 2005, the Corporation filed a final prospectus for its Initial Public Offering ("IPO"). The offering resulted in the issuance of 7,922,221 shares for total gross proceeds of $6.275 million. The Corporation began trading on the TSX-V on November 11, 2005.

In advance of the Corporation's successful initial public offering completed on November 9th, 2005, its President and CEO, Brian Alford, assembled the balance of his management team by retaining the services of David Work (Vice President of Exploration), James Esposito (Chief Operating Officer) and David Johnson (Chief Financial Officer).

Management immediately began executing its initial drilling program with the spudding of its first two wells in the Bruce area. As of January 15, 2006, the Corporation had drilled and cased a total of five gross wells, and was conducting production testing on two wells. One of the Bruce wells was pipelined in early February, 2006 and was placed on production through a third party gas processing plant on February 15th, 2006 at an initial 'flush' production rate of 550 mcfd (gross).

In order to minimize risk in the early phase of its growth, the Corporation entered into joint venture agreements with an industry partner on certain of the above properties. The joint venture partner participated on a 50/50 basis in the first four wells in the Bruce and Cessford areas. In return, the industry partner is presently developing drilling opportunities in which the Corporation will have the option to evaluate and participate in on similar terms provided above.

Currently, the Corporation is proceeding with the engineering and procurement of processing equipment to bring one of the Cessford wells on production in Q3 2006. This well has tested at over 2,000 mcf/d gross (1,000 mcf/d net) at high pressure. Two other Cessford well locations have been identified and are expected to be drilled and tested in Q2 2006, with plans to tie them in to the current Cessford well that is being brought onto production in Q3 2006. The three remaining wells in Bruce, Cessford and Knappen, Alberta have been tested and are awaiting stimulation programs and/or third party infrastructure development in proximity to them.

In Q1 2006, the Corporation entered into an initial binding letter of intent with the Bigstone Cree Nation ("BCN") for the exploration and development of in-situ oilsands and non-associated gas on approximately 55,000 acres of BCN reserve lands in north eastern Alberta. The letter of intent was formalized in April 2006 with the completion and signing of a joint operating agreement ("JOA"). The JOA allows the Corporation to begin development drilling on the reserve lands commencing in the Q3 2006. The BCN reserves are located in the heart of the Athabasca oilsands region of Alberta and are surrounded by proven production from the Wabiskaw formation.

The general terms, for the lands being targeted for the Q3 2006 drilling program, require the Corporation to pay 100% of all capital to earn a 95% working interest before project pay out and a 75% working interest after project pay out. Allowed costs include all expenditures that are directly attributable to the project, including facilities. The BCN receives a carried working interest of 5% before project pay out and 25% after pay out, at no cost to the BCN.

The Corporation engaged Paddock Lindstrom & Associates Ltd. ("PLA") to evaluate the Wabiskaw formation on the BCN reserve lands. The Wabiskaw formation is characterized as a sheet oilsands deposit at a depth of approximately 400 meters which has an average oil pay thickness of 6 meters with 30% porosity. PLA estimates Original Oil in Place ("OOIP") of 563 million barrels using volumetric calculations. PLA's evaluation of offset Wabiskaw horizontal well production indicates primary recovery potential of 6% of OOIP. The PLA study also evaluated existing area Wabiskaw horizontal well production and water injection wells which indicate potential for an additional 5% recovery factor (11% total) from implementation of a waterflood in the Wabiskaw zone.

The Corporation has executed a Letter of Intent to acquire all of the issued and outstanding shares of Reel Technologies Corporation ("Reel") in consideration for the issuance of a maximum of 1,565,582 Bronco Common Shares and the payment of $855,000 to current Reel shareholders. Reel is a privately owned company that owns and operates Reel Drilling Corp. and Reel Pumping Services. Reel's assets include three drilling rigs, two cement pumping units, three cement bulker trailers and five oilfield tractor trucks. Two of Reel's drilling rigs are contracted to the end of 2006, and the third will be modified into a Super Single, and custom designed to drill 1800 meter horizontal wells the BCN reserve lands. The Corporation's management will be working closely with Reel's management team on the execution of its drilling program. The proposed acquisition is subject to a number of conditions including the approval of the TSX Venture Exchange.

The Corporation has also entered into an agreement with RBC Capital Markets to act as lead agent and sole book-runner for a private placement of approximately $30 million of common shares to be issued from treasury, including $5 million of common shares on a flow-through basis. The net proceeds of this offering will be primarily used to fund the Corporations initial development plans for the BCN reserve lands. The offering is expected to close in late May and is subject to receipt of all necessary regulatory and stock exchange approvals.

Management has focused a significant amount of effort on the development of this unique and relatively untapped land base for the benefit of the shareholders of the Corporation and the BCN, and is currently finalizing it plans to commence drilling on these lands in Q3 2006. In addition, management has continued to carry out its exploitation plans on the development of its properties primarily located in east central Alberta.

3. Selected annual financial information

The following table discloses selected annual financial information from fiscal 2005 and the initial seven month period ended December 31, 2004:

Year ended December 31	**2005**	**2004 (seven months)**
Total interest revenue	$ 27,116	$ 6,162
Net earnings (loss)	$ (536,063)	$ (2,997)
Basic and diluted earnings per share [1]	$ (0.1223)	$ (0.0015)
Total assets	$ 7,808,934	$ 1,056,882
Long term debt	$ Nil	$ Nil
Dividends per share[2]	$ Nil	$ Nil

__Notes:__

1. Based on weighted average number of common shares outstanding of 4,381,862 (2004 – 1,984,104).
2. The Corporation has not paid out any dividends on its common shares and does not have any current plans to pay dividends on its common shares.

4. Results of operations

The Corporation had interest revenue of $27,116 during the year ended December 31, 2005, all of which was attributable to interest earned on the Corporation's cash holdings.

Total operating expenses during the year ended December 31, 2005 were $686,990 including stock based compensation expense of $305,638. The large majority of the remaining $381,352 of operating expenses occurred during the last four months of the year. The significant increase which occurred in the last four months is primarily the result of the retention of the balance of the Corporation's management team that was discussed above in the "Operations Summary" section. A full break-down of all expenses is included in chart form later in this document under "Summary of expenses".

5. Summary of quarterly results

The following information summarizes the financial results of the Corporation for the three quarters since the completion of its Qualifying Transaction. All amounts are in Canadian dollars:

Quarter Ending	Interest Revenue ($)	Expenses ($)	Net Income (Loss) ($)	Earnings (Loss) Per Share (Non-diluted)(1)
March 31, 2005	2,675	13,444	(10,769)	(0.003)
June 30, 2005	53	57,119	(57,066)	(0.017)
September 30, 2005	28	72,551	(72,523)	(0.022)
December 31, 2005	24,360	543,876	(395,705)	(0.035)

Note:

1. Calculated based on 3,275,946 common shares outstanding for the first three quarters of fiscal 2005, and 11,206,367 for the quarter ended December 31, 2005.

6. Liquidity

As of December 31, 2005, the Corporation had $5,431,556 of cash and term deposits on hand. The Corporation did not have any current liabilities as at December 31, 2005 other than accounts payable and accrued liabilities of $933,300. Therefore, the Corporation has sufficient liquidity to maintain operations, carry out its planned drilling programs for its initial crown land leases, and the acquisition of Reel. The commencement of the drilling program on the BCN reserve lands is dependent on obtaining additional funding planned private placement through RBC Capital Markets and co-agents.

On November 9, 2005 the Corporation completed its initial public offering and raised gross proceeds of $4,853,929. A total of 4,028,199 common shares at a price of $0.75 per share, and 2,036,422 flow-through common shares at a price of $0.90 per share were issued pursuant to a prospectus of the Corporation dated October 27, 2005. A second closing under this prospectus was completed on November 16, 2005 at which gross proceeds of $1,421,070 were received by the Corporation for the issuance of 1,671,800 common shares and 185,800 flow-through common shares at the same prices indicated above.

7. Capital resources

The Corporation's capital resources are comprised of the ten petroleum and natural gas leases mentioned in the "Operations Summary" section and the funds raised through the issuance of common shares discussed above in the "Liquidity" section. The Corporation does not currently have any bank lines or other debt instruments, but plans to pursue sources of debt financing upon the successful establishment of production through its drilling program or acquisition of producing properties. In the future, the Corporation's growth will be funded by a combination of cash flows from operations, the issuance of debt, and additional equity offerings.

As a result of the Corporation's issuance of 2,222,222 flow-through shares for proceeds of $2,000,000, it is obligated to renounce this amount to shareholders in 2005. The amounts renounced to shareholders in the 2005 calendar year must be expended by the Corporation and reported to Canada Revenue Agency before the end of the 2006 calendar year, otherwise it will be subject to penalties. Based on management's current capital expenditure planning with respect to the Corporation's drilling programs, management expects to spend an amount greater than the above flow-through obligation.

8. Transactions with related parties

Management services were provided to the Corporation through consulting companies controlled by the officers of the Corporation. The Corporation pays or accrues $11,000 per month (of which $1,000 is to be utilized for the purchase of the Corporation's shares), for services rendered, to consulting companies owned by its four member management team, comprised of its President and CEO, Vice President of Exploration, Chief Financial Officer and Chief Operating Officer. In addition to the above monthly amounts the Corporation paid a retention incentive fee to one of its officers in the amount of $37,000, and paid year-end performance bonuses of $2,000 to three of its officers.

The Corporation also paid a total of $94,386 to a law firm where one of its directors is a partner, of which $88,291 was directly attributable to the IPO and included in share issue costs.

During the year ended December 31, 2005, 180,858 shares (1,398,043 shares during the initial seven month period ended December 31, 2004) were issued prior to the initial public offering to directors, officers and members of the management team or parties related to them for $74,700 (2004 - $489,315). These transactions have been recorded at exchange amounts, which equal carrying values. No assessment of the fair value of this transaction has been completed as the information is not readily available or determinable.

There were no other related party transactions during fiscal 2005.

9. Proposed transactions

As at the date of this document, other than the letter of intent to acquire all of the issued and outstanding shares of Reel, the Corporation does not have any pending transactions. Management of the Corporation continues to pursue joint venture partners and joint venture opportunities as a means of minimizing the overall risks of its drilling program. Management of the Corporation is also actively searching for, and evaluating, potential production acquisition targets that it believes will provide shareholder's with solid long-term returns.

10. Changes in accounting policies including initial adoption

There were no accounting policy changes during the year ended December 31, 2005.

11. Financial instruments

The Corporation invests its liquid capital in term deposits with relatively short maturities (60 days or shorter). While this policy limits the yield on the Corporation's liquid investments, management has determined that it is in the best interests of the Corporation to maintain its cash assets in such a manner that they can be made available for operational and investment opportunities within a short time period.

12. Summary of expenses

The following table outlines the general & administrative expenses, management and consulting fees and professional fees incurred by the Corporation for the four quarters of fiscal 2005:

	Quarter Ended March 31/05	Quarter Ended June 30/05	Quarter Ended Sept. 30/05	Quarter Ended Dec. 31/05
Management and consulting fees	$ 10,000	$ 18,000	$ 44,739	$ 168,066
Salaries and benefits	-	-	-	14,206
Legal, accounting and audit fees	1,500	8,305	5,858	26,587
Computer software fees and licenses	1,851	11,684	-	9,944
Rent and occupancy costs	-	-	2,644	23,858
Insurance	-	500	750	4,797
Dues and subscriptions	-	-	1,239	-
Depletion, depreciation and accretion	-	-	1,500	11,319
Shareholder communication	-	-	-	3,468
Other general and administrative	93	630	1,821	36,270
Stock based compensation	-	18,000	14,000	273,638
Overhead recovered	-	-	-	(28,277)
TOTAL	**$ 13,444**	**$ 57,119**	**$ 72,551**	**$ 543,876**

13. Outstanding securities

Common shares outstanding

The Corporation is authorized to issue an unlimited number of Common Shares, of which 11,206,367 Common Shares were issued and outstanding as at December 31, 2005. Total paid up share capital for the Corporation is $7,459,619.

In November 2005 the Corporation completed it's IPO through the TSX Venture Exchange whereby the Corporation issued a total of 7,922,221 (of which 2,222,222 were flow through common shares) for gross proceeds of $6,274,999. The common shares and flow through common shares were priced at $0.75 per share and $0.90 per share respectively. Blackmont Capital, the agent for the Corporation's IPO, also exercised

8,200 options at a price of $0.75 prior to December 31, 2005. During Q1 2006 Blackmont Capital also exercised an additional 137,500 of its options. As of the date of this document the company has 11,343,867 Common shares issued and outstanding.

The holders of the Corporation's Common Shares are, subject to the rights, privileges, restrictions and conditions attached to the shares of any other class, entitled to dividends as and when declared by the Board of Directors of the Corporation, to one vote per share at meetings of shareholders of the Corporation except meetings at which only holders of a specified class of shares are entitled to vote and, upon liquidation, to receive such assets of the Corporation as are distributable to the holders of the Common Shares.

Options outstanding

As of December 31, 2005, the Corporation had reserved a total of 1,390,654 Common Shares under a stock option plan to directors and consultants, which options entitle the holders thereof to acquire common shares of the Corporation as follows:

- 150,654 common shares at an exercise price of $0.35 per share with an expiration date of March 14, 2010.
- 1,140,000 common shares at an exercise price of $0.70 per share with various expiration dates ranging from June 10, 2008 to September 6, 2008.
- 100,000 common shares at an exercise price of $0.90 per share with an expiration date of December 16, 2008. Since these issuance of these options exceeded the maximum 1,300,000 shares reserved under the current approved plan, these options are subject to ratification by the shareholders at the Corporation's next annual general meeting.

In addition to the above the Corporation has issued Agent's Options to Blackmont Capital pursuant to the closing of the Initial Public Offering. A total of 792,222 options (ie. 10% of the 7,922,221 common shares issued) have been issued, which entitle the holder to acquire one Common Share upon payment of an exercise price of $0.75 per Common Share at any time within 18 months from the date of issuance. As of the date of this report a total of 145,700 of the Agent's Options have been exercised leaving a balance of 646,522 remaining.

Escrowed securities

The Corporation currently has 1,084,591 securities under escrow. As per the terms of the escrow agreement, a portion of these securities will be eligible for release from escrow every six months over a three year period beginning on November 4, 2005. The Corporation will apply for the release of the escrowed securities as per the schedule outlined under the escrow agreement.

14. Disclosure controls and procedures over financial reporting

Although the Company continues to refine its disclosure controls and procedures from time to time, the CEO and CFO have concluded that, during 2005, the process was effective enough to ensure material information was accumulated and communicated up to management in sufficient time for management to make decisions regarding the Company's disclosure required by securities legislation.

15. Additional information

Additional information on the Corporation is available, including the final prospectus filed by the Corporation on October 27, 2005, on the SEDAR web site accessible at www.sedar.com or at the Corporation's website at www.broncoenergy.ca.